Wm. T. Stover Co. v. Commissioner, 27 T.C. 434 (1956)

An expenditure that is against public policy, such as one made to influence a public official in a way that conflicts with their duties, is not deductible as an ordinary and necessary business expense. Also, a contribution that falls under the charitable contribution rules is not deductible as a business expense.

Summary
Wm. T. Stover Co., a surgical supply company, sought to deduct several expenses, including a plane ticket for a journalist to study socialized medicine, maintenance costs of a pleasure boat, contributions to hospitals, and payments to the Director of the Arkansas Division of Hospitals. The Tax Court disallowed these deductions, holding that the plane ticket expense was not an ordinary and necessary business expense as per the Textile Mills case, that the company failed to show that the respondent erred in his disallowance of one-half of the boat maintenance, that the hospital contributions fell under the charitable contribution rules and were limited to 5% of taxable income, and that the payments to the state director were against public policy and were therefore not deductible. The court reasoned that the payments to the director were meant to influence his decisions in favor of the company, which was a conflict of interest.

Facts
Wm. T. Stover Co. (the company) sold surgical and hospital supplies. In 1949, it purchased a round-trip airplane ticket to England for a journalist who was to study socialized medicine and report his findings to the Arkansas Medical Society. The company also owned a pleasure boat used for business entertainment and personal use by stockholders. The company made contributions to several hospitals that were also its customers. Finally, in 1950, the company hired Moody Moore, the Director of the Arkansas Division of Hospitals, as a “hospital consultant” and paid him for services related to sales to hospitals under Moore's purview.

Procedural History
The Commissioner of Internal Revenue determined deficiencies in the company's income tax for 1949 and 1950. The company disputed these deficiencies in the U.S. Tax Court. The Tax Court ruled in favor of the Commissioner.

Issue(s)
1. Whether the company could deduct the cost of the airplane ticket as an ordinary and necessary business expense.
2. Whether the company could deduct the full amounts expended for the maintenance and operation of a pleasure boat.
3. Whether the contributions to hospitals could be deducted as ordinary and necessary business expenses or if they were subject to the limitations on charitable contributions.

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4. Whether the company could deduct the payments to the Director of the Division of Hospitals as an ordinary and necessary business expense.

Holding
1. No, because the expenditure was not an ordinary and necessary business expense.
2. No, because the company failed to prove the Commissioner erred in disallowing half the deduction.
3. No, because the contributions were subject to the limitations on charitable contributions.
4. No, because the payments were against public policy.

Court's Reasoning
The court relied on Textile Mills Securities Corp. v. Commissioner to deny the deduction for the airplane ticket, asserting that the facts were indistinguishable. The court also found the company failed to provide sufficient evidence for the boat's allocation of expenses, and the contributions to the hospitals, which were deductible as charitable contributions, were expressly disallowed under the business expense statute.
Regarding the payments to Moore, the court focused on Moore's position as a full-time salaried state official with duties to the State and Federal Government. The court found the payments were made for the purpose of gaining an improper advantage in business transactions, which placed Moore in a position inconsistent with his official duties. The court cited multiple precedents including Pan American Petroleum & Transport Co. v. United States and United States v. Carter to support the principle that it is against public policy for a public officer to be in a position that may reasonably tempt them to serve outside interests to the prejudice of the public. The court stated that the employment of Moore “was a betrayal of the public interest and antagonistic and contrary to established policy, State and Federal.”

Practical Implications
The case clarifies that expenses against public policy are not deductible as business expenses. Specifically, payments intended to influence a public official in a way that conflicts with their public duties are not deductible. This impacts the deductibility of lobbying expenses or payments made to government officials where the intention is to circumvent or influence public policy. It also reinforces the limitations between charitable and business expenses.

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